

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY**

**FOR
CUSTODY MANAGEMENT**

November 13, 2007

This policy is effective immediately upon adoption and supersedes all previous Custody Management Policies.

I. PURPOSE

The CalPERS Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS' overarching investment purposes and objectives with respect to all its investment programs.

Pursuant to California Government Code Section 20172, the CalPERS Board has statutory authorization to "...retain a bank or trust company to serve as [custodian](#) for [safekeeping](#), delivery, securities valuation, investment performance reporting, and other services in connection with investment of the retirement fund."

This document sets forth the policy ("Policy") for custody of California Public Employees' Retirement System ("CalPERS") assets and assures that custodians and other participants selected by CalPERS take prudent and careful action while safeguarding CalPERS' assets.

II. POLICY OBJECTIVE

This Policy shall ensure the safe, efficient, and accurate custody of CalPERS' assets. To carry out this Policy, CalPERS will contract with custodial firms with sufficient financial strength to protect the interests of CalPERS. Contracted custodians ("Custodian") will be required, at a minimum, to demonstrate a long-term credit rating of Moody's A1 and S&P A+ (U.S. firms) or a similar measure of financial strength (non-U.S. firms).

III. RESPONSIBILITIES

A. CalPERS' Investment Staff ("Staff") is responsible for the following:

1. Monitoring the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and all violations of the Policy immediately and in writing to the Committee. These reports shall include explanations of the violations and appropriate recommendations for corrective action.

2. Notifying Custodian in writing of the appointment, suspension, or termination of any investment manager.
3. Developing and recommending to the Committee the criteria and methodology for Custodian selection, consistent with CalPERS' enterprise-wide competitive solicitation and contracting procedures.
4. Ensuring that all original investment documents including deeds, titles, partnerships, and insurance contracts are safeguarded in accordance with CalPERS' enterprise-wide Business Continuity Plan.

B. Custodian duties include, but are not limited to, the following:

Custodial, Accounting, and Reporting Services

1. Providing the custodial, accounting and reporting services for eligible assets held in CalPERS' name, in a manner consistent with industry standards and subject to strict internal controls. The Custodian shall provide services for any assets held by additional [agents](#) or [sub-custodians](#) appointed by CalPERS or the Custodian. These services shall be provided in accordance with, but not limited to, the following stipulations:
 - a. The Custodian shall establish on its books and records, a separate CalPERS account (Account), or sub accounts for purposes determined by CalPERS, consisting of all assets owned along with net asset values or market values, where applicable, and earnings, income, and other cash flows related to these assets.
 - b. The Custodian shall hold and direct its agents or sub-custodians to hold all securities and other CalPERS assets in separate accounts or sub-accounts. The assets are not to be commingled with general assets or deposits of the Custodian or sub-custodians, except for cash awaiting instructions or other disposition. Custodial assets are the sole property of CalPERS and not general assets of the Custodian. CalPERS agrees that the securities and other CalPERS assets may be held by the Custodian or its sub-custodians and may be maintained by them in the securities depositories, clearing agencies, and book entry systems agreed upon.

- c. The Custodian shall release and deliver, or direct its agents or sub-custodians to release and deliver, CalPERS assets upon [Proper Instructions](#) as specified in the custodial contract, as amended from time to time.
- d. The Custodian shall claim any [security](#) they believe another institution, depository, and third party agent holds and registers in CalPERS' name.
- e. The Custodian shall register all of CalPERS' assets in the name of CalPERS or as required by the depository provided books and records, which are maintained by the Custodian showing CalPERS ownership.
- f. The Custodian may open one or more cash accounts when disbursing or remitting assets in the transition process to and from CalPERS.
- g. The Custodian shall collect, on behalf of CalPERS, income, interest, dividends, refunds, and other proceeds accruing to securities of CalPERS, except for securities loaned by third parties.
- h. The Custodian shall pay out or direct its agents or sub-custodians to pay out money of CalPERS and adhere to Proper Instructions provided in the custodial contract, as amended from time to time.
- i. The Custodian shall process [proxies](#) or proxy materials in accordance with CalPERS' proxy voting policy and procedures, as amended from time to time.
- j. The Custodian shall transmit promptly to CalPERS or the Investment Manager all written information received concerning assets held in the Fund in its custody.
- k. The Custodian shall keep accurate and detailed accounts of all investments, receipts, and other transactions involving CalPERS. These records shall be separate for each sub-account and include proof of all transactions involving securities held in the account. The securities shall be priced and valued by a third party pricing service approved by CalPERS.

- l. The Custodian shall process all cash movements across its books in full compliance with the state of California regulations regarding claims and remittances.
- m. The Custodian shall provide assurances, through a third-party review acceptable to CalPERS, that internal controls are sufficient to protect CalPERS' assets.
- n. The Custodian shall provide electronic tools or systems which will enable CalPERS Staff to fulfill its duties to manage, monitor and report on investments and investment performance.
- o. Upon request of CalPERS, the Custodian shall provide to designated CalPERS consultants relevant information regarding CalPERS' assets, accounting, and performance.

Fiduciary Relationship

- 2. Custodians, sub-custodians, and agents shall acknowledge their fiduciary relationship with CalPERS. They shall discharge each of their duties therein and exercise each of their powers (as those duties and powers are defined herein), with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters uses in the conduct of an enterprise of a like character and with like aims. The Custodian is required to contractually inform all sub-custodians and agents of this fiduciary relationship.

Ethics and Conflicts of Interest

- 3. Custodians shall comply with CalPERS' policies and procedures, as amended from time to time, relating to ethics and conflicts of interest.

Custody of Assets Outside the United States

- 4. The Custodian shall have a comprehensive system, acceptable to CalPERS, of selecting and evaluating sub-custodians and monitoring their internal control structures, performance and financial conditions.
- 5. All sub-custodians and agents appointed by the primary Custodian to hold assets outside the United States must comply with the responsibilities of the Custodian listed in Section III.B. of this Policy and with the standards listed below for eligible [foreign custodians](#).

6. Eligible foreign custodians are entities that are incorporated or organized under the laws of a country other than the United States and meet the following criteria:
 - a. Qualified foreign banks or majority-owned direct or indirect subsidiaries of U.S. banks or bank holding companies.
 - b. Securities depositories or clearing agencies that act as systems for the central handling of securities or equivalent book entries in the countries that are regulated by [foreign financial regulatory authorities](#).
 - c. Securities depositories or clearing agencies that act as transnational systems for the central handling of securities or equivalent book entries.

IV. CUSTODIAN LIABILITY

The Custodian shall be fully liable for any loss to, or diminution in, the value of the Fund resulting from the Custodian's own acts or omissions, if the resulting loss or diminution in value of the Fund is the proximate result of the Custodian's breach of its duty of care as defined in the custodial contract, as amended or any other negotiated contract between the Custodian and CalPERS, except when such acts or omissions are in compliance with Proper Instructions. This liability shall extend to the acts or omissions of the Custodian's agents and sub-custodians.

CalPERS may, at its discretion, limit the liability of the Custodian when doing so does not compromise the rights of CalPERS or the safety or security of CalPERS' assets.

V. EVALUATION

- A. Time and accuracy are of the essence for the delivery of services under this Policy. The custodial contract shall provide for the measures of the standards of service, its timeliness, and its accuracy.
- B. Each year, and at the end of the Custodian's contract term, CalPERS shall conduct an evaluation of the Custodian's services. The evaluation shall be based on the terms outlined in the custodial contract, including but not limited to: CalPERS' satisfaction with the Custodian's responsiveness, the services provided including safekeeping, transaction processing, delivery, securities valuation, investment performance reporting, and all other services in connection with the Fund.

- C. The custodial contract shall provide CalPERS with the ability to perform audits with the scope determined by CalPERS..

VI. GLOSSARY OF TERMS

Key words used in this policy are defined in CalPERS' Master Glossary of Terms.

Approved by the Policy Subcommittee: May 19, 2000
Adopted by the Investment Committee: June 19, 2000
Revised by the Policy Subcommittee: December 10, 2004
Approved by the Investment Committee: February 14, 2005
Revised by the Policy Subcommittee: October 12, 2007
Approved by the Investment Committee: November 13, 2007